Browne Jacobson

Real estate energy efficiency: Guide to lease and regulatory changes

10 February 2025 Alexander Harris

Whilst the Government dithers about whether to put economic growth ahead of anti-growth policies, such as its net zero targets, landlords are still continuing to improve the energy efficiency of their portfolios.

We have seen some retailers walk away from deals because of the demands of landlord energy efficiency requirements and this is an area often overlooked at heads of terms stage when it should be a key consideration.

Here are some pointers to assist in what can be a difficult (and costly) area:

1. What EPC rating does the property have?

All properties must have an EPC to be let on the open market and an EPC should be readily available. Get a copy of it. If it has a rating of 'B' or above you can stop reading now…. or can you? There are other considerations to think about, so you may as well read on.

2. What if the property has a rating of 'E' or 'D'?

Well, currently that property can be let, but note that by 2027 the minimum requirement will be a 'C' and by 2030 it is expected to be a 'B'. What does that mean for the tenant? Well, much depends on what the lease says.

3. Find out what the landlord’s requirements are and what the lease may say.

We see landlords require that premises must be brought up to a 'C', at the tenant’s cost. We see other landlords require that the premises be the “minimum legal requirement”, again, at the tenant’s costs. So an 'E' in 2025 would have to be a 'B' by 2030. How easily can that be achieved (and can it be achieved) and what are the costs of doing that.

4. Future-proofing fit-outs

A well-advised tenant would be looking to future proof its fit-out by installing efficient HVAC systems, LED lighting and perhaps removing that old single glazed shop front with the ill-fitting frameless glass doors. Who foots the bill? The tenant? Or will the landlord contribute to the cost? You are future proofing the landlord’s portfolio after all. How does that effect rent review? It should be disregarded if the tenant is paying, but does the lease make that clear?

5. What plant and machinery is in the premises?

How old is it and how efficient is it? Think about your future needs and the costs and practicalities of replacement.

6. Is the property a standalone building or part of a larger building?

Often a retail premises on a high street will be at street level with perhaps other tenants occupying the upper floors. What does the lease say on service charge and contributing to the cost of improvements to the building? How energy efficient is the whole building? These need to be considered and investigated to avoid getting a nasty service charge shock.

7. Lease compliance

Most leases will say that no tenant alterations can lower the energy rating and that is accepted as being fair in the market these days, but do make sure you can comply with this (and mention it to your design teams and architects so they are aware!) and most consents to alter these days will require that only LED lighting be allowed and that supplies and materials are from a sustainable source – again one for the design team.

8. Collaborative energy management

Finally, many leases now focus on general cooperation between landlords and tenants on energy efficiency and consumption, so do be prepared to take part in forums and to share details of energy and water consumption; some landlords go so far as to say your energy contracts need to be with renewable source providers.

These are some of the considerations we see that regularly arise. Getting the right balance is essential and 'forewarned is forearmed' seems a very appropriate proverb on this tricky and potentially costly area.

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